

Message Text

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14

ACTION EA-09

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 IO-10 AGR-10 /110 W
----- 121857

R 220325Z DEC 75

FM AMEMBASSY PORT MORESBY

TO SECSTATE WASHDC 1108

INFO AMEMBASSY CANBERRA

AMEMBASSY JAKARTA

AMEMBASSY MANILA

AMEMBASSY SUVA

AMEMBASSY WELLINGTON

CINCPAC HONOLULU HI

HICOMPACIS SAIPAN

UNCLAS PORT MORESBY 1278

CINCPAC FOR POLAD

E.O. 11652: NA

TAGS: EFIN, PP

SUBJECT: PNG KINA TO BE PEGGED TO AUSTRALIAN DOLLAR

1. FINANCE MINISTER JULIUS CHAN ANNOUNCED DECEMBER 17, 1975, THAT PAPUA NEW GUINEA'S CURRENCY, THE KINA, WOULD CONTINUE TO BE THE SAME VALUE AS THE AUSTRALIAN DOLLAR (K1.00 EQUALS US\$1.25) AFTER THE DUAL CURRENCY PERIOD ENDS DECEMBER 31. CHAN STATED THAT PARITY IS LIKELY TO REMAIN FOR A SUBSTANTIAL PERIOD PROVIDED THERE ARE NO MAJOR CHANGES IN THE VALUE OF THE AUSTRALIAN DOLLAR RELATIVE TO OTHER MAJOR CURRENCIES.

2. CHAN SAID, HOWEVER, THAT IF THERE WAS A DEVALUATION OF THE AUSTRALIAN DOLLAR, PNG WOULD JUDGE ON THE
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CIRCUMSTANCES AT THE TIME WHETHER TO FOLLOW COMPLETELY,

PARTLY OR NOT AT ALL. CHAN SAID HE COULD NOT FORSEE CIRCUMSTANCES IN WHICH IT WOULD BE SENSIBLE TO DEVALUE THE KINA IN TERMS OF WORLD MAJOR CURRENCIES. HE ADDED THAT THE STRONG FINANCIAL AND COMMERCIAL TIES WHICH PNG HAS WITH AUSTRALIA MAKE IT SENSIBLE TO CHOOSE A KINA EXCHANGE RATE EXPRESSED IN AUSTRALIAN DOLLARS.

3. COMMENT: PNG BUYS ABOUT 55 PERCENT OF ITS IMPORTS FROM AUSTRALIA AND SELLS ABOUT 13 PER CENT OF ITS EXPORTS TO AUSTRALIA. ITS HEAVY RELIANCE ON AUSTRALIAN GOODS, THE SIGNIFICANT AUSTRALIAN AID MONEY WHICH SUPPORTS THE PNG BUDGET, AND CLOSE TIES WITH THE AUSTRALIAN TREASURY ALL SERVE TO UNDERSCORE THE CLOSE RELATIONSHIP BETWEEN THE TWO COUNTRIES AND THE LOGIC OF PEGGING THE KINA TO THE AUSTRALIAN DOLLAR.
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